



**Economics
Leaving Certificate
Higher Level**

**Past Exam Questions
Marking Scheme on
Factor Incomes: Rent, Profit, Wages...**

Q3 Section B 2013

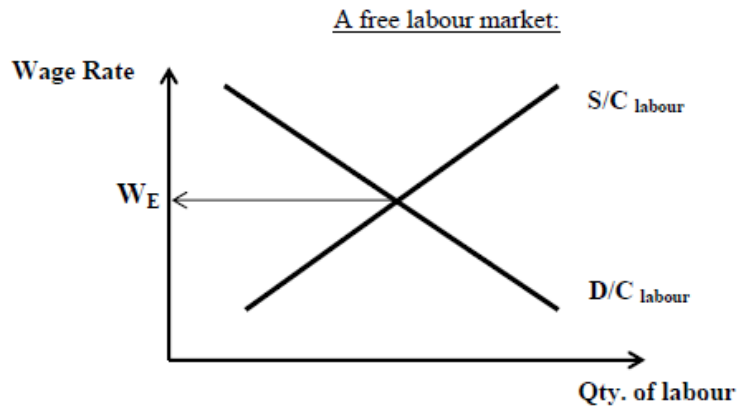
Q3 Labour / Gender Pay Gap / Karl Marx

(a) State and explain four economic influences on an individual firm's demand for labour. (25)

1. **Marginal revenue productivity of labour**
How productive is the worker? Will the worker generate more revenue than his wage rate?
2. **(Minimum) Wage rate**
If the wage rate increases then this increases the costs for employers and may reduce their demand for labour.
3. **Demand for output**
An increase in the demand for the firm's output may increase the demand for labour.
4. **Price of other factors of production (including capital)**
Prior to employing more labour the firm would compare the cost of the additional labour with that of other factors of production available to determine which is the most competitive.
5. **State subsidies**
If the state were paying subsidies for the hiring of additional labour then this may make it more attractive to employ additional labour.
6. **Taxation Rates on the firm's profits**
If the profitability of a firm is reduced by higher tax on a firm's profits then this may affect a firm's decision to employ additional labour.
7. **Payroll taxes / Employers rate of PRSI**
If the rate of personal taxation increases then labour may seek a higher wage rate making the firm less competitive. Similarly if the rate of PRSI / USC on labour increases this is an additional cost for the firm, which may reduce its demand for labour.
8. **Availability of technology**
A firm's demand for labour will be affected by the availability of new technologies particularly if it helps to reduce costs.
9. **Trade union involvement**
If a worker is a member of a trade union then the firm may not employ this worker.
This applies to some firms in Ireland who prefer to operate without the involvement of trade unions.

First 3 points at 7 marks (4+3) each
4th point at 4 marks (2+2)

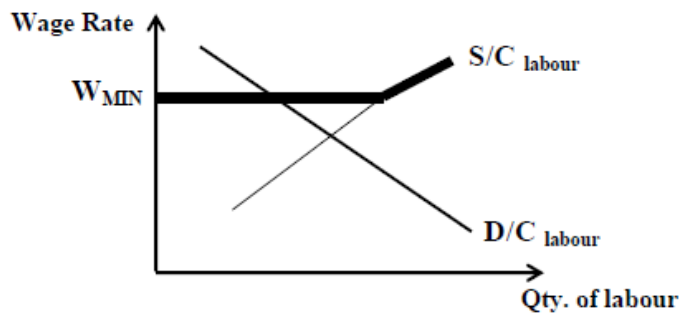
- (b) Explain, with the aid of a labour market diagram in each case, how equilibrium wage rates are determined in:
- A free labour market;
 - A labour market where a trade union has negotiated a minimum wage.
- (25)



- A free market is one where there are no restrictions on the demand and supply of labour.
- Where the demand for labour equals the supply of labour the equilibrium wage rate is set.

Diagram: 5 marks
Explanation: 7 marks (4+3)

A labour market where a trade union has negotiated a minimum wage



- The trade union may negotiate a minimum wage rate: this is set at W_{MIN} .
- No workers will be supplied below W_{MIN} .

Diagram: 5 marks
Explanation: 8 marks (4+4)

(c) Women in Ireland earn on average 17.1% less per hour than men, according to a study by the European Commission (*Tackling the gender pay gap in the European Union*, 2011). (15)

(i) Outline two possible reasons for the lower wage rates earned by women in the Irish economy.

1. Discrimination in the workplace

Women and men may not be paid the same wages even though they do the same work due to illegal discrimination.

2. Lack of enforcement by State agencies

State agencies do not enforce the existing legislation or take legal action against offenders.

3. Balancing work and family responsibilities

Women work shorter hours and often part-time to combine family responsibilities and paid work. Career progression can be interrupted by maternity leave.

4. 'Glass ceiling'/fewer women in senior and leadership positions

Women are under-represented in most senior positions, in politics and in certain sectors within the economy such as on boards of management.

5. Different jobs, different sectors

Women and men carry out different jobs and often work in different sectors. In health and social work women make up 80% of workers.

6. Undervaluing of women's work and skills

Women's skills and competencies are often undervalued, especially in occupations where they are in the majority. This is reflected in lower rates of pay.

7. Gender role of women / Tradition

Some people may still consider that a woman's role in society is to stay in the home and rear children and this may still cause rates to be lower in some societies.

2 points at 5 marks (2+3) each

(ii) Outline one measure that could be taken to close the gender pay gap.

1. Awareness - raising Campaign

Governments could put in place measures to raise awareness on gender equality and company good practice. A widespread advertising campaign during 'European Equal Pay Day' might raise awareness of the gender pay gap and initiate change.

2. Collective Agreements

Social partners could make provisions in collective agreements on gender equality and require companies to report on salaries and plans to close the gender pay gap.

3. Labour Inspections / Name and shame the offenders

Labour inspectors could be trained to carry out inspections on equal pay violations and publish names of offenders.

4. Audits by companies

Gender equality plans and audits enable companies to measure their progress in implementing gender equality and equal pay.

5. Make pay systems transparent

Transparent pay systems are very important in implementing equal pay e.g. software to help companies analyse pay and staffing structures and verify if equal pay exists.

6. Gender Equality Studies

A government could implement studies into the issue and take action to implement strategies to close the gender pay gap.

7. Implement / enforce existing laws

Governments could also ensure that current laws are enforced by taking legal cases against offenders.

8. Education on gender stereotyping

Policies could be pursued which challenge 'traditional' views of women in schools, home and in the workplace.

1 point at 5 marks (2+3)

(d) Explain briefly Karl Marx's economic theory about the exploitation of labour in a capitalist system.(10)

- Marx argued that workers were paid subsistence / minimum wages by their employers.
- The value of the goods produced by a worker was more than the wages paid to the worker. (The difference between the two he called the 'surplus value' or profit to the employer). This illustrated that workers were exploited and in time would be replaced by capital resulting in their unemployment.

10 marks (6+4)

Q3 Part (a) Section B 2012

Q3 Terms, Entrepreneurship, Survival of Small firms
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- (a) (i) Explain the following terms in relation to a factor of production:
- Supply Price;
 - Transfer Earnings.
- (ii) Explain the concept *Economic Rent* and outline two circumstances under which a factor of production can earn it. (25)

(i)

Supply Price:

The minimum payment necessary to bring a factor into use and maintain it in that particular use.

5 marks

Transfer Earnings:

The earnings of a factor in the next best alternative employment.

or

What a factor must receive to keep it in its present use and prevent it from transferring to another use.

5 marks.

(ii)

Economic Rent:

Any earnings of a factor of production above its supply price/transfer earnings.

5 marks.

Two circumstances under which a factor of production can earn it:

1. Shortage in the supply of any factor of production

If land / labour is in short supply, its price will increase.

2. Possession of a rare skill or talent

If a person has a skill which is in great demand e.g. a professional soccer player then they can command high fees.

3. Rent of Ability

An entrepreneur who invents a much sought after commodity may command high income.

4. Completely specific factors of production

There is no opportunity cost in the use of an existing factor of production which is completely specific (not adaptable to other uses e.g. a railway station) . If a payment is made for the use of this specific factor then this entire payment would be economic rent as the opportunity cost is zero.

2 points at 5 marks each.

Q6 Section A 2007

6. Outline TWO circumstances under which a factor of production can earn Economic Rent.

1. **Shortage in the supply of any factor of production:**
if land / labour is in short supply – its price will increase.
2. **Possession of a rare skill or talent:** if a person has a skill which is in great demand e.g. a professional soccer player then they can command high fees.
3. **Rent of Ability:** an entrepreneur who invents a much sought after commodity may command high income e.g. Bill Gates and the invention of the 'windows' operating systems.
4. **Completely specific factors of production:** there is no opportunity cost in the use of an existing factor of production which is completely specific (not adaptable to other uses e.g. a railway station).
If a payment is made for the use of this specific factor then this entire payment would be economic rent as the opportunity cost is zero.
5. **Super normal profits earned in the short run** (will be eliminated with the entry of firms) / **long run if barriers to entry exist** e.g. in monopoly.

17 marks graded.

Q2 Section A 2006

2. State three reasons why profits are important in a market economy.

1. Encourages risk taking: Profits are a pre-requisite for undertaking risks.
2. Indicates the best use of resources / consumer demand:
Profits indicate what goods and services consumers demand.
3. Encourages investment: profits may encourage entrepreneurs to invest further in ventures.
4. Provides funds for expansion: Existing business expansion or diversification.
5. Continuity of production: If normal profit is not earned production ceases.
6. SNPs reward entrepreneurs' innovations:
Those firms which are most efficient / or which minimise costs may earn SNPs.
7. Source of revenue for the government:
Government earns tax revenues for the benefit of citizens.
8. SNP's may promote Mergers / Takeovers:
Existing profitable firms may be taken over by multinationals.

16 marks graded

Q3 Section A 2006

3. A firm wishes to attract more labour. In order to increase its labour force from 5 to 6 employees, the firm must increase the weekly wage rate from €400 to €440 per employee.
Calculate the firm's marginal cost of labour. Show your workings.

$5 \times €400 = €2,000$ $6 \times €440 = €2,640$ Marginal Cost of labour = <u>€ 640</u>	$€40 \times 6 = €240$ $\quad\quad\quad + €400$ Marginal Cost of labour = <u>€ 640</u>
16 marks graded	16 marks graded